Brussels, 13 October 2008

Joint statement on financial market turmoil

The combined deceleration of global growth and the fallout of intense financial market turbulences imply a high level of uncertainty and stress on financial and economic systems.

Recent bank failures in Europe have exposed the pervasiveness of the turmoil and the extent to which the present confidence crisis affects financial institutions' access to funding through ordinary market channels. While a broad based credit crunch may not be evident in Europe as yet, containing the current financial turmoil and its negative impact on the broader economy is a matter of the utmost importance.

The president of BUSINESSEUROPE, Ernest-Antoine Seillière, and the president of the European Banking Federation, Michel Pébereau, have assessed the situation and issued joint recommendations to tackle the most immediate challenges.

1. Recent support from governments through public partaking in private financial institutions has proved a viable short term solution to avoid more systemic risks developing across Europe. These interventions should be viewed as transitory and should not have lasting effects on public finances. On their side, banks must do their utmost to restore confidence by cleaning up their balance sheets and communicating their precise financial situation.

2. The coordinated cuts in seven central banks reference interest rates, which were announced on 8th October, are a welcome acknowledgment of the risks to world growth arising from the turmoil. The ECB's steps to ease liquidity constraints and lower market interest rates were timely, and should help to support confidence and economic activity during the difficult months to come. In the present context, the ECB's strong credibility has been a tremendous asset to limit the extent of the crisis in Europe.

3. European banks and industry warmly welcome the outcome of the euro area Summit on 12 October, where euro area governments, the European Commission and the ECB jointly agreed on an action plan, involving state guarantees to unfreeze interbank money markets, commitments to re-capitalise financial institutions and to respond flexibly to market conditions with ECB liquidity interventions and other policy instruments. This agreement represents a decisive step for the governance of the European Economic and Monetary Union and more generally for future collective actions at EU level.

4. European banks and other financial institutions are subject to high standards and strict regulations, but cross-border supervision and crisis management is insufficiently organised. Emergency situations have not been solved at EU level and have resulted in disparate actions at Member State level; these actions were taken without sufficient consideration for maintaining a level-playing field on the internal market.

Procedures to respond to cross-border failures and to ensure adequate and swift burden sharing must be enhanced without delay. More transparency, improved coordination, and convergence of market supervision across the EU are equally important, including in ad-hoc interventions to ban short selling practices and to guarantee deposits and loans.

5. The pro-cyclical nature of fair value measurement of financial assets appears to have worsened the impact of the crisis on financial and non-financial corporations. It is vital that accounting standard-setters take up the issue and seriously consider amending fair value accounting rules for assets in markets where liquidity suddenly disappears.

6. SMEs may face disproportionate consequences when bank lending standards tighten. The EU's overall resilience to the present turmoil critically hinges on its capacity to maintain and facilitate SMEs' access to finance. In this regard, instruments of the European Investment Bank could provide significant support if sufficiently funded and accessible.

7. While the present financial turbulence will undoubtedly accelerate a review of certain regulatory arrangements, including solving conflict of interests in the activities of rating agencies, the European business community insists that hurried solutions to a rapidly evolving financial situation would be counterproductive, and merely lead to increased cost and reduced choice for issuers and investors.

8. In the face of global turmoil, an international approach must be favoured, in order to increase the resilience of markets and institutions going forward. EU policy makers should engage their partners in order to foster rapid implementation of the most vital proposals issued by the Financial Stability Forum earlier this year.

The business community is in a state of alertness but remains confident in the foundation of the European financial system and in the European model of universal banks. Long lasting relationships between European bankers and entrepreneurs will be an asset in the present circumstances and will contribute to the resilience of the wider European economy.

BUSINESSEUROPE and the European Banking Federation stand ready to contribute to finding a balanced and appropriate response to the present turmoil, and to creating the conditions for a swift return of confidence.

Ernest-Antoine Seillière

Michel Pébereau